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C O N F I D E N T I A L SECTION 01 OF 02 SAN JOSE 000159

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DEPARTMENT FOR WHA/CEN

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SUBJECT: OSCAR ARIAS ON PRIORITIES FOR HIS GOVERNMENT

REF: SAN JOSE 131

Classified By: Amb. Mark Langdale for reasons 1.4 (b&d).

Summary

1. (C) An Arias Administration will make a priority of spending whatever political capital is necessary to ratify and implement CAFTA-DR. Arias offered to be helpful to the United States in the region, promoting free trade and opposing a leftward political drift. Arias seems unable to accept that USG assistance will be a tiny fraction of what he remembers from his previous term as president. He believes the prospects of Daniel Ortega returning to the presidency in Nicaragua are very slim.

2. (U) During the visit of WHA A/DAS David Lindwall to Costa Rica January 16-18, he and the Ambassador visited former president Oscar Arias (1986-90) at his home. Arias is likely to be reelected on February 5. The discussions focused on priority issues for an incoming Arias Administration. Oscar Arias was accompanied by his brother and closest adviser, Rodrigo Arias.

CAFTA-DR

3. (C) Oscar Arias said his top priority will be the free trade agreement, stating flatly that CAFTA-DR will not be ratified by the current legislature. He regretted that the current government's inaction was already costing Costa Rica foreign investment at a time that it is also suffering high unemployment, 14 percent inflation, a 20 percent poverty rate, and crumbling infrastructure. Arias acknowledged that the heavy lifting, not only for ratification, but also for implementation, would fall to his administration, but said the elections would give him a mandate to do just that. Rodrigo Arias claimed that his brother's coattails would bring at least 26 National Liberation Party (PLN) Deputies to the new legislature. (NOTE: Most of our contacts put the number closer to a still respectable 20-23 Deputies--29 would make a majority.) Oscar Arias stated that not only is he prepared to fight for CAFTA-DR, he is also planning for a series of conflicts with powerful organized labor unions in order to privatize ports on both the Atlantic and Pacific Coasts.

Oscar: "I can help you in the region"

4. (C) Arias stated his belief that his free trade credentials, combined with his well-known willingness to stand up to the USG when necessary, make him a natural leader for opposing the region's leftward drift. Twice in the discussions Arias said he could be helpful to us in advancing mutual policy goals in the region, particularly in the area of free trade. Arias asked about the status of negotiations with Panama and whether the agreement was bilateral or multilateral. Lindwall said that the negotiations with Panama had been difficult, often due to differences over sanitary and phyto-sanitary (SPS) requirements. In the case of CAFTA-DR, Lindwall pointed out that all the members had already agreed to "equivalency" (acceptance of the U.S. meat and poultry inspection system) although there were some differences over the time frames for implementation. Arias nodded but did not otherwise react.

5. (C) Arias said that he has proposed hosting an international debt-forgiveness summit in San Jose that would encourage donors to consider factors such as democracy, liberty, and responsible social spending in addition to per capita income when making debt-forgiveness decisions. Lindwall told Arias that donors were increasingly focusing on "performance" when making decision about the allocation of diminishing assistance resources. Arias said that Costa Rica's interest in the process was to avoid "punishment" for its relative success.

Still probing for MCA funds

6. (C) Arias pressed for any sign of flexibility on Costa Rica's request for Millennium Challenge Account funding. Reminded that Costa Rica's relatively high per capita income disqualifies it for MCA funds, Arias said he would send his

brother Rodrigo to visit the Millennium Challenge Corporation in Washington during a planned visit there February 13 - 16. (Note: this is one week after the Costa Rican Elections.) Lindwall expressed support for Oscar Arias's plan to visit Washington early in the new administration.

Nicaragua: Ortega can't win

17. (C) Arias was dismissive of Daniel Ortega's chances for electoral victory, saying that Ortega has failed to attract enough moderate votes to win outright in a first round and has too high a negative vote to win in any second round. In the same breath, he said that if Ortega did win, Nicaraguan immigration to Costa Rica would double, causing a national crisis. Arias said his government could work with "anyone but Ortega" and added that his confidence in a defeat for Ortega was based on information from Costa Rican pollsters working in Nicaragua.

Comment

18. (C) Arias is campaigning on an aggressive agenda of change and investment. While there is little doubt he will be the next President of Costa Rica, his ability to carry out any of his sweeping initiatives will depend on forming majority support in the Assembly. The fight over CAFTA-DR, especially the fundamental changes required for implementation, will consume enormous amounts of energy and political capital. The closer the PLN gets to winning 29 seats, the more Arias will realistically be able to accomplish.

19. (C) This was the third visit with Oscar Arias by the Ambassador. In each visit Arias has discussed his important future role in regional and global affairs (and his Nobel Peace Prize recipient status). Organizing a debtors' conclave would be the precisely wrong signal for Costa Rica to send and would not be helpful to US interests. We need to proactively propose a scenario for Arias to be of assistance in the regional arena. The visit by Rodrigo Arias to Washington DC February 13-16 will give Embassy Costa Rica an opportunity to arrange the appropriate meetings to suggest ways the new Arias administration can be helpful.

110. (U) A/DAS Lindwall cleared this cable.
LANGDALE